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Creating wants or filling them?

I saw a study once showing that the incidence of headaches in the U.S. has grown in proportion to the volume of advertising of headache medicines. Is that cause or effect? Does marketing actually create the need? I think there's research about some other manufactured needs. Marketers didn't invent bad breath or body odor, they just increased the awareness.

I grew up aware of yellow teeth because of the Pepsodent commercial, pervasive in my time, "you'll wonder where the yellow went when you brush your teeth with Pepsodent." When I was in grad school back in 1970, the dean of the Journalism school, an advertiser, told us that this was the most effective advertising campaign in history.

I'd like to think that marketing is about identifying needs and wants, not creating them; more like filling them with business offering. And given that you need to know people to understand their needs and wants, the finer the aim on target, the better. Or at least that's what I hope.

There's a line in Sheryl Crow's song, Soak Up the Sun:

It's not having what you want;
it's wanting what you've got.



Marketing (continued)

Help customers find you with organic search results; find new customers with paid search advertising.

Then there's Seth Godin's post, *Destroying Happiness*.

Why are so many people happy? "What you have doesn't make you unhappy. What you want does."

And want is created by us, the marketers.

Maybe. Can marketing create headaches? Sure. Bad breath? Have you seen the commercials about bad breath in dogs? Is that good marketing? How about targeting and product development?

Several world views relate happiness to not wanting things. That's very Zen. Pretty Christian too, from what I know, and Jewish, and probably Muslim, but then I'm hardly an expert. That's just my impression.

The new world, I hope, is about identifying and filling needs and wants that already exist. That's better business. Cheaper marketing. It doesn't have to be a better mousetrap, it might just be a more specific cable channel or website, or better target marketing in clothes, food, housing, and even energy.

Product and Brand Failures

A Marketing Perspective

Overview

Product and brand failures occur on an ongoing basis to varying degrees within most product-based organizations. This is the negative aspect of the development and marketing process. In most cases, this “failure rate” syndrome ends up being a numbers game. There must be some ratio of successful products to each one that ends up being a failure. When this does not happen, the organization is likely to fail, or at least experience financial difficulties that prohibit it from meeting profitability objectives. The primary goal is to learn from product and brand failures so that future product development, design, strategy and implementation will be more successful.

Studying product failures allows those in the planning and implementation process to learn from the mistakes of other product and brand failures. Each product failure can be investigated from the perspective of what, if anything, might have been done differently to produce and market a successful product rather than one that failed. The ability to identify key signs in the product development process can be critical. If the product should make it this far, assessing risk before the product is marketed can save an organization’s budget, and avoid the intangible costs of exposing their failure to the market.

Failures (continued)

Failure can be lack of sales, lack of profit, or anything that makes you pull it off the market.

Defining product and brand failures

A product is a failure when its presence in the market leads to:

- The withdrawal of the product from the market for any reason;
- The inability of a product to realize the required market share to sustain its presence in the market;
- The inability of a product to achieve the anticipated life cycle as defined by the organization due to any reason; or,
- The ultimate failure of a product to achieve profitability.

Failures are not necessarily the result of substandard engineering, design or marketing. Based on critic's definitions, there are hundreds of "bad" movies that have reached "cult status" and financial success while many "good" movies have been box office bombs. Other premier products fail because of competitive actions. Sony's Beta format was a clearly superior product to VHS, but their decision to not enable the format to be standardized negatively impacted distribution and availability, which resulted in a product failure. The "Tucker" was a superior vehicle compared to what was on the market at the time. This failure was due to General Motors burying the fledgling organization in the courts to eliminate a future competitor with a well-designed product posing a potential threat to their market share. Apple has experienced a series of product failures, with consistent repetition as they continue to fight for market share.

Failures (continued)

Safety failures are still failures, even if at first the product seems profitable.

Product failures are not necessarily financial failures, although bankruptcy may be the final result. Many financially successful products were later found to pose health and safety risks. These products were financial and market share successes:

- Asbestos-based building materials now recognized as a carcinogenic—Insulation, floor tile and “popcorn” ceiling materials produced by a number of manufacturers.
- Baby formula that provided insufficient nutrients for infants resulting in retardation—Nestle’s.
- The diet medication cocktail of Pondimin and Redux called “Fen Phen” that resulted in heart value complications—American Home Products (<http://www.settlementdietdrugs.com/>).

What successful products may be next? Frequent and high dosages of Advil are suspected to correlate with liver damage. Extended use of electric blankets are suspected by some to increase the chance of cancer. The over-the-counter availability and high use of Sudafed is feared by some physicians and is currently under review by the U.S. Food and Drug Administration.

Failures (continued)

Product failures and the product life cycle

Most products experience some form of the product life cycle where they create that familiar—or a variant—form of the product life cycle based on time and sales volume or revenue. Most products experience the recognized life cycle stages including:

1. Introduction
2. Growth
3. Maturity (or saturation)
4. Decline

In some cases, product categories seem to be continuously in demand, while other products never find their niche. These products lack the recognized product life cycle curve.

Failure, fad, fashion or style?

It is important to distinguish a product failure from a product fad, style or a fashion cycle. The most radical product life cycle is that of a fad. Fads have a naturally short life cycle and in fact, are often predicted to experience rapid gain and rapid loss over a short period of time—a few years, months, or even weeks with online fads. One music critic expected “The Bay City Rollers” to rival the Beatles.

Do you know who they are? And the pet rock lasted longer than it should have, making millions for its founders.

A “fashion” is what describes the accepted emulation of trends in several areas, such as clothing and home furnishings. The product life cycle of a “style” also appears in clothing as well as art, architecture, cars and other esthetic-based products.

The “end” of these product life cycles does not denote failures, but marks the conclusion of an expected cycle that will be replaced and repeated by variations of other products that meet the same needs and perform the same functions.

The benefits of studying failures

Gaining a better understanding of product failures is important to help prevent future failures. Studying the history of product failures may generate some insight into the reason for those failures and create a list of factors that may increase the opportunity for success, but there are no guarantees.

The following is an abbreviated list of product failures that may provide insight that will help to identify product and brand success factors:

Failures (continued)

Automotive and transportation

- Cadillac Cimarron
- Pontiac Fiero
- Chevrolet Corvair
- Ford Edsel
- The DeLorean
- Crosley
- The Tucker
- The Gremlin, the Javelin and a complete line of other models by American Motors
- GM's passenger diesel engine
- Mazda's Wankel rotary engine
- Firestone 500 tire
- Goodyear tires used on the Ford Explorer
- Concorde—supersonic airliner

Computer industry

- IBM's PCjr—introduced in March 1985
- Apple's Newton
- Apple's Lisa
- Coleco's Adam
- Percon's Pocketreader—hand held scanner, now operating under the company name PSC
- Bumble Bee's software version of the book "What Color is Your Parachute"

Entertainment

- Quadraphonic audio equipment
- World Football League
- Women's National Basketball Association
- World League of American Football
- United States Football League
- "He and She," "Berrengers," every spinoff done by the former cast of "Seinfeld," and dozens of other television shows each year.
- "Of God's and Generals," "Heavens Gate," "Water World," "The Postman" and other movies—with a disproportionately high number produced by Kevin Costner.

Food and beverage

- Burger King's veal parmesan
- Burger King's pita salad
- McRib—and still being tested and tried
- Nestle's New Cookery—but a successor, Lean Cuisine, is a big hit
- Gerber's Singles—dinners in jars, for adults—early '70s
- Chelsea—"baby beer"

Failures (continued)

Photographic and video

- Polaroid instant home movies
- SX-70 (Polaroid instant camera)
- RCA Computers (Spectra-70)
- Video-disc players
- DIVX variant on DVD

U.S. currency

- Susan B. Anthony Dollar coin—niche in San Francisco, Las Vegas
- Two-dollar bill
- Twenty-cent piece

Other products

- DuPont's CORFAM —synthetic leather
- Mattel's Aquarius
- Timex's Sinclair
- Clairol's Touch of Yogurt Shampoo (1979)
- Sparq portable mass storage
- Rely tampons
- Relax-a-cizor—vibrating chair
- Louisiana World Exposition—and its gondola

Common reasons for product failures

In addition to a faulty concept or product design, some of the most common reasons for product failures typically fall into one or more of these categories:

- High level executive push of an idea that does not fit the targeted market.
- Overestimated market size.
- Incorrectly positioned product.
- Ineffective promotion, including packaging message, which may have used misleading or confusing marketing message about the product, its features, or its use.
- Not understanding the target market segment and the branding process that would provide the most value for that segment.
- Incorrectly priced—too high and too low.
- Excessive research and/or product development costs.
- Underestimating or not correctly understanding competitive activity or retaliatory response.
- Poor timing of distribution.

Sometimes a good idea has bad marketing. Sometimes a good idea is executed poorly. And some things are just bad ideas.

Failures (continued)

- Misleading market research that did not accurately reflect the actual consumer's behavior for the targeted segment.
- Conducted marketing research and ignored those findings.
- Key channel partners were not involved, informed, or both.
- Lower than anticipated margins.

Using these potential causes of a product or brand failure may help to avoid committing those same errors. Learning from these “lessons” can be beneficial to avoid some of these pitfalls and increase the chance for success when you launch that next product or brand.

Not Everybody is Your Customer

This is hard to write about, and hard for business owners to accept. It seems so negative. Still, it seems like we all need a fresh reminder. Bill Cosby said it well: “I don’t know the secret to success, but I do know that the secret to failure is trying to please everybody.”

This reminds me, brilliantly, of how important it is to understand . . .

You need customers.

The first thing you need to start a business, maybe even the only thing you really need, is customers. It all starts with at least one customer.

Who is your target customer.

In detail. Not just generalities and demographics, not even just psychographics, but who is this person, what drives her, what does she really want from you, what does she like to read, eat, watch? Where does he live, and with whom? What does he drive?

Who *isn't* your customer.

Sometimes the secret to success is who isn’t your customer.

I was in a panel presentation not long ago alongside an expert in customer service. At one point, after she’d dizzied us with stories of Nordstrom retail clerks changing customers’ tires and taking as returns products that Nordstrom had never carried, somebody asked, with just a hint of exasperation, “But how does a company stay in business like that? How do they make money? Who pays for all that?”

Not Everybody is Your Customer (continued)

At which point, after a beautifully-timed pause, the expert said: “Yes, that is the question, isn’t it . . . and pay attention, because this is the most important thing I’ll say all night . . . you have to understand that not everybody is a customer.”

John Jantsch, in *Duct Tape Marketing*, recommends that you start by profiling your ideal customer. Focus for a while on one person, whether he or she is your customer directly or the decision-maker for a business customer. Give that person age, gender, income level, likes, dislikes, favorite movies, songs, magazines, restaurants. Know that person.

If you’ve been in business, you can think of that customer fairly easily. Maybe it’s a composite of several real customers.

A clear example of knowing who is and who isn’t your customer can be found in the automobile industry. In theory, everyone who is over 16 years old and has a valid driver’s license could be considered the target customer. But, if you take time to appreciate the ads for different vehicles you’ll see that the marketing efforts are precisely pitched to narrow target markets.

For instance, the rich, deep, saturated colors, focus on high-quality features and refined accessories, the calm and quiet voice, and the sense of genteel conviviality of the Lincoln Town Car speaks directly to the well-heeled buyer. On the other hand, the spinning tires, clouds of smoke, screaming engine and 150 images a minute visual stimulation of an 800 horsepower, street-legal hot-rod TV spot is crafted especially for the hyper-active, quadruple-shot-enhanced-caffeine-energy-drink-quaffing youth.

Other industries segment their target markets. Some restaurants appeal to people in a hurry, or people on a budget, or people looking for a romantic rendezvous, or people who appreciate and seek out the taste treats presented by culinary masters. Every successful restaurant has carefully decided who their target customers are, and who they are not, and then manage their marketing efforts accordingly.

Whole Foods Market and PC Market of Choice are both grocery stores which specialize in organic prepared foods and locally grown organic fruits and vegetables. Their target market customers choose to spend more when buying groceries to get the benefits from healthier foods. Safeway or Kroger or Publix stores on the other hand focus on selling national brands, and target a different, often budget conscious, segment of the population.

Not Everybody is Your Customer (continued)

People who don't value what you do are not your customers. Focus on the ones who DO value your work.

Consider the Trunk Club, Joanna Van Vleck's interesting startup described in "Startup Success Story: The Trunk Club" in Up and Running at upandrunning.entrepreneur.com. How important is it that she understands who isn't her customer? She told me this herself:

I realized that although I thought my target was women, women are normally closer to style. In general. So they aren't as likely to pay money for style consulting.

Men have less ego invested. Some, in fact, pride themselves on not knowing style. In general.

The metrosexual man is not my customer. He loves his own style and spends his own time and effort finding it.

The man whose partner in a relationship likes to shop for his clothes is not my customer. She wants to do it. She doesn't want me to.

The younger men on a budget aren't my customer. They can't afford me.

Notice how the "isn't my customer" routine helps define and position your marketing better.

Not Everybody is Your Customer (continued)

Successful marketing is about focus. Make sure the person in your target really belongs there.

A fast-food restaurant knows that the relatively well-to-do baby boomer empty nesters aren't their customers. On average. The sushi restaurant knows that the construction worker driving a pickup truck who eats at the Texas barbecue drive-through isn't its customer.

Consider Jolt cola. All the sugar and twice the caffeine. How important is understanding who isn't the customer?

Your blog, if you're doing a blog as a business, needs a focus. People don't care about your inner angst, but there are specialty niche areas all over the place. Old Volkswagen maintenance. Arranging dry flowers. The narrower you cut it the better. Sure there are some general blogs that work, but they started years before you did. Nowadays you need to focus.

It is imperative that you know your customers, and do adequate market research.

Ask yourself: Who is my customer? Who isn't my customer? Then focus your marketing efforts to reach your target customers most effectively.

–Includes excerpts from upandrrunning.bplans.com,
and [Plan-As-You-Go Business Planning](#).

Understand Your Pricing Choices

There are businesses that can't set their own prices as easily as others.

Businesses that are regulated by government agencies, or insurance companies, don't always have much price leeway. Some dentists and doctors set their own prices, and some, based on their relationships with HMOs and insurance programs can not. Some public agencies and utilities require government approval in order to change prices.

Businesses that sell standard commodities also may have price limitations. For example, the service station by a highway exit that has three visible competitors is going to have trouble charging more or less than the others. Movie theaters tend to make certain they have competitive prices. Video rentals have to stay within a certain range to keep volume up.

There is a direct relationship between businesses selling commodities and businesses bound by competition. Gas stations and video stores have trouble raising prices when they have nearby competition. When they get into rural areas where distance is a factor, they have more options.

Sometimes a local supplier can charge a higher price than the more distant competitors.

Pricing (continued)

In most businesses there are some upper constraints based on competition. Look at most products and you'll see established price points based on competition, positioning, etc. As this is written, a cup of coffee costs about a dollar, a four-door, four-cylinder car costs \$12,000-\$16,000, a mid- to high-performance computer system costs about \$3,000. You really can't go way over these standard prices without offering some serious additional benefits.

Even in these examples, however, despite the pricing constraints there are still ways you can influence pricing through adding value. A gas station can have promotions on oil changes, or offer hot coffee. A video store may charge less for its older items than new releases, allow five day rentals instead of one, have a larger inventory, or include video games for rent to increase its average price.

Pricing for Product Positioning

Positioning is very important, and pricing is your most powerful tool for product positioning. The best way to price your product is as part of your marketing strategy.

Your pricing sends a message. Some businesses have been extremely successful with very high pricing and matching positioning. For example, some cars with similar specifications sell for

much more than others (think of the luxury cars such as Mercedes, Jaguar, and Lexus). Many businesses would sell less, not more, if their prices were lower (luxury shopping stores such as Nordstrom, fine restaurants, and hotels). In addition to offering higher margins, high prices are an important part of the benefits they sell. These higher price points offer prestige and exclusivity and make these products more desirable.

People don't always want the least expensive product. The original Pillsbury cake mix failed commercially at \$0.10 a package (in the early 1950s) and then became an instant success just a year later when it was introduced at \$0.25 per package. The initial home hair coloring products experienced the same. When the product was very inexpensive, people didn't believe it offered value.

As you work with pricing, refer back to your positioning statements often. If you believe that your product or service is as good as it is, then consider pricing it above the competition. If, on the other hand, your business model calls for low prices and discounting, then pull your prices down to match your positioning.

Price Point Determination

Understanding your costs is a critical component in establishing the price for your product or service. Determining the cost "floor" for your product is an important step toward establishing the range of where your price should be. This will help you understand where you can exercise pricing discretion to set your price point.

Pricing (continued)

Know Your Price Floor

Pricing at the floor means that you are not making any money, or margin, on the products you sell. Therefore, the price of your product or service must be greater than your total costs. This may seem like common sense, but many business failures have occurred from not fully understanding the total costs they incur to produce the product or provide the service to their customers. When the price of your product or service is not contributing to your bottom line, you don't have the opportunity to "make it up in volume."

Understanding your total costs requires you to conduct an accurate assessment of your variable costs and your fixed costs. Your variable costs are those associated with each product you create. Raw materials and the labor expenses required to create products are examples of variable costs. Fixed costs are those costs that remain constant, regardless of the volume of product that you produce. Rent and utilities are examples of fixed costs.

Fixed costs may be more challenging to assess. Fixed costs may be allocated based on a prorated factor based on the time associated with creating the product or providing the service. This is more complex when multiple products or services are being produced simultaneously or have dramatically different production cycles.

Calculate these costs as accurately as you can to find the price floor. This exercise will make certain that you don't price your product too low and prevent you from making revenue from each unit sale of your product.

As mentioned before another consideration in pricing too low is the risk of having a low price associated with low quality. This will be based on the customer's perceived value and its correlation to the price that they will pay to benefit from their purchase. Some products are considered to be price inelastic. Consumers continue to purchase the product regardless of its price. An appendectomy is one example, but we also see examples of this in consumer products from hair coloring to software.

In addition to the cost structure, the price point may be determined by these factors:

- Level of demand
- Degree of competitive threat
- Impact of government regulation
- Presence of substitute products
- Product positioning
- Production and distribution capabilities
- Overall marketing strategy

You may choose a "skimming price strategy" that will result in higher margins, and usually low sales volumes. A "penetration pricing strategy" often results in a lower contribution margin for each product sold complemented by increased sales volumes.

Pricing (continued)

Most entrepreneurs are far more likely to underprice themselves than to overprice.

Customer's Perceived Value:

Price Ceiling

Highest Price Point – Skimming Strategy

Strategic Price Point – Pricing Discretion

Lowest Price Point – Penetration Strategy

Price Floor

Pricing is Magic

Even after you've done the analysis, pricing is still a bit of magic. They don't teach formulas that work at any business school I know of. Although there are some basic parameters, you'll find pricing is a combination of educated guessing, art, and reality plus a little luck. With that as an introduction, here are some thoughts to consider. Having been a consultant to and participant in small business for years, I believe most entrepreneurs are far more likely to underprice than overprice.

Pricing (continued)

Don't low-ball yourself. If you are a manufacturing company, you should be able to calculate your physical cost of goods and know your real costs, including marketing and administration, and make sure you make a decent profit.

For example, a retail software publisher's product may benefit by keeping the price slightly higher than its competitors. However, the retailers know their customers, and this sales channel is critical to the software publisher's success. The retailers may require the products's price to remain below \$100 to keep their sales volume at an acceptable level.

In this situation the software publisher must be very careful in their product pricing. One criteria encourages them to price above one point while another criteria requires that they price below it. You can research what others are doing with prices, percentages of gross margin and related information, and from this information you can estimate their pricing structure.

[The Risk Management Association](#) (formerly Robert Morris Associates) is a membership organization sponsored by banks which publishes an annual listing of standard financial ratios, developed by polling member banks, for actual business results of thousands of different companies in small business.

The RMA has a publication called [Annual Statement Studies](#) which is a very valuable source of information. That study showed, for example, that shoe retailers selling less than \$1 million per year make an average of 42 percent gross margins, they spend an average of 40 percent on operating expenses, and they net about one percent of sales as profits. As of this writing, this publication sells for \$130 to members and \$250 for nonmembers, in either hard copy or CD-ROM.

Other pricing resources you can experiment with include direct telephone sales, interviews, and mock products, to see how people react. The Internet also provides opportunity for experimenting.

Packaging and Labeling Your Products

How packaging can sell

Product packaging must be appealing in order to attract and hold the consumers' eye and attention, and serve as an efficient and functional shipping container.

Most physical products require packaging. This involves the design of a box or wrapper that contains the product. In addition to the function it performs—to hold and protect the product—it is also a powerful selling tool.

Products can have multiple packages. This includes the container itself, such as a bottle, can, or case. This is often enclosed in a box for protection purposes. The product may also have a case or larger container to ship multiple products within one box. Each of these packages, particularly those that the consumers see before their purchase, offers the opportunity to communicate information to consumers at a critical point in their decision making process.

Packaging offers the opportunity to:

Protect the Product

- Reduce costs due to breakage.
- Protect the product in transit: for example breakable or perishable items such as perfume, light bulbs or food.
- Protect the product on the shelf: from theft, damage or tampering (i.e., pharmaceuticals or CDs).

Packaging (continued)

Promote the Product

- Complement other promotional activities.
- Communicate information: core benefits, “why to buy” testimonials, Internet addresses and toll-free telephone numbers, for products like tools or software.
- Display the product: attach to display hardware or stand upright as with gloves or cell phones.

Provide Additional Value and Differentiation

- To provide increased purchase justification.
- Dispense the product: ease of use or the size of recommended portions, as with spray paint, hair care products, etc.
- Preserve the product: seal and reseal perishables. Examples are food products and cleaning supplies.
- Offer consumer safety: warn of hazards due to improper use of dangerous substances (such as the information on cigarette packaging) or design considerations (such as not standing on the top step of a ladder).

- Serve other uses: containers that can be used for other after-purchase purposes. Film canisters might carry a couple days’ vitamins or aspirin in a backpack. A current foldable bicycle ships and travels in a suitcase, which then converts into a trailer to be pulled behind the bike.

Retail products purchased on an impulsive basis depend heavily on packaging to communicate information and encourage a buy decision. Music CDs, perfume, and software are examples of this. An increasing number of products are purchased without the assistance from a store employee, magnifying the opportunity and impact of the package.

Well-designed packages offer a promotional tool and convenience value to the user. This can result in another form of product differentiation. Packaging can offer after-purchase value to store the product, or be used for other uses. Razors that are packaged in travel cases are an example of this.

How to Perform a SWOT Analysis

The SWOT analysis is a valuable step in your situational analysis. Assessing your firm's strengths, weaknesses, market opportunities, and threats through a SWOT analysis is a very simple process that can offer powerful insight into the potential and critical issues affecting a venture.

The SWOT analysis begins by conducting an inventory of internal strengths and weaknesses in your organization. You will then note the external opportunities and threats that may affect the organization, based on your market and the overall environment. Don't be concerned about elaborating on these topics at this stage; bullet points may be the best way to begin.

Capture the factors you believe are relevant in each of the four areas. You will want to review what you have noted here as you work through your marketing plan. The primary purpose of the SWOT analysis is to identify and assign each significant factor, positive and negative, to one of the four categories, allowing you to take an objective look at your business. The SWOT analysis will be a useful tool in developing and confirming your goals and your marketing strategy.

Some experts suggest that you first consider outlining the external opportunities and threats before the strengths and weaknesses. Marketing Plan Pro will allow you to complete your SWOT analysis in whatever order works best for you. In either situation, you will want to review all four areas in detail.

SWOT (continued)

Strengths

Strengths describe the positive attributes, tangible and intangible, internal to your organization. They are within your control. What do you do well? What resources do you have? What advantages do you have over your competition?

You may want to evaluate your strengths by area, such as marketing, finance, manufacturing, and organizational structure. Strengths include the positive attributes of the people involved in the business, including their knowledge, backgrounds, education, credentials, contacts, reputations, or the skills they bring.

Strengths also include tangible assets such as available capital, equipment, credit, established customers, existing channels of distribution, copyrighted materials, patents, information and processing systems, and other valuable resources within the business.

Strengths capture the positive aspects internal to your business that add value or offer you a competitive advantage. This is your opportunity to remind yourself of the value existing within your business.

Weaknesses

Note the weaknesses within your business. Weaknesses are factors that are within your control that detract from your ability to obtain or maintain a competitive edge. Which areas might you improve?

Weaknesses might include lack of expertise, limited resources, lack of access to skills or technology, inferior service offerings, or the poor location of your business. These are factors that are under your control, but for a variety of reasons, are in need of improvement to effectively accomplish your marketing objectives.

Weaknesses capture the negative aspects internal to your business that detract from the value you offer, or place you at a competitive disadvantage. These are areas you need to enhance in order to compete with your best competitor.

The more accurately you identify your weaknesses, the more valuable the SWOT will be for your assessment.

SWOT (continued)

Opportunities

Opportunities assess the external attractive factors that represent the reason for your business to exist and prosper. These are external to your business. What opportunities exist in your market, or in the environment, from which you hope to benefit?

These opportunities reflect the potential you can realize through implementing your marketing strategies. Opportunities may be the result of market growth, lifestyle changes, resolution of problems associated with current situations, positive market perceptions about your business, or the ability to offer greater value that will create a demand for your services.

If it is relevant, place timeframes around the opportunities. Does it represent an ongoing opportunity, or is it a window of opportunity? How critical is your timing?

Opportunities are external to your business. If you have identified “opportunities” that are internal to the organization and within your control, you will want to classify them as strengths.

Threats

What factors are potential threats to your business? Threats include factors beyond your control that could place your marketing strategy, or the business itself, at risk. These are also external – you have no control over them, but you may benefit by having contingency plans to address them if they should occur.

A threat is a challenge created by an unfavorable trend or development that may lead to deteriorating revenues or profits. Competition – existing or potential – is always a threat. Other threats may include intolerable price increases by suppliers, governmental regulation, economic downturns, devastating media or press coverage, a shift in consumer behavior that reduces your sales, or the introduction of a “leap-frog” technology that may make your products, equipment, or services obsolete. What situations might threaten your marketing efforts? Get your worst fears on the table. Part of this list may be speculative in nature, and still add value to your SWOT analysis.

It may be valuable to classify your threats according to their “seriousness” and “probability of occurrence.”

The better you are at identifying potential threats, the more likely you can position yourself to proactively plan for and respond to them. You will be looking back at these threats when you consider your contingency plans.

SWOT (continued)

The Implications

The internal strengths and weaknesses, compared to the external opportunities and threats, can offer additional insight into the condition and potential of the business. How can you use the strengths to better take advantage of the opportunities ahead and minimize the harm that threats may introduce if they become a reality? How can weaknesses be minimized or eliminated? The true value of the SWOT analysis is in bringing this information together, to assess the most promising opportunities, and the most crucial issues.

An example

AMT is a computer store in a medium-sized market in the United States. Lately it has suffered through a steady business decline, caused mainly by increasing competition from larger office products stores with national brand names. The following is the SWOT analysis included in its marketing plan.

Strengths

1. Knowledge. Our competitors are retailers, pushing boxes. We know systems, networks, connectivity, programming, all the Value Added Resellers (VARs), and data management.
2. Relationship selling. We get to know our customers, one by one. Our direct sales force maintains a relationship.
3. History. We've been in our town forever. We have the loyalty of customers and vendors. We are local.

Weaknesses

1. Costs. The chain stores have better economics. Their per-unit costs of selling are quite low. They aren't offering what we offer in terms of knowledgeable selling, but their cost per square foot and per dollar of sales are much lower.
2. Price and volume. The major stores pushing boxes can afford to sell for less. Their component costs are less and they benefit from volume buying with the main vendors.
3. Brand power. Take one look at their full-page advertising, in color, in the Sunday paper. We can't match that. We don't have the national name that flows into national advertising.

SWOT (continued)

Opportunities

1. Local area networks. LANs are becoming commonplace in small businesses, and even in home offices. Businesses today assume LANs are part of normal office work. This is an opportunity for us because LANs are much more knowledge and service intensive than the standard off-the-shelf PC.
2. The Internet. The increasing opportunities of the Internet offer us another area of strength in comparison to the box-on-the-shelf major chain stores. Our customers want more help with the Internet and we are in a better position to give it to them.
3. Training. The major stores don't provide training, but as systems become more complicated with LAN and Internet usage, training is more in demand. This is particularly true of our main target markets.
4. Service. As our target market needs more service, our competitors are less likely than ever to provide it. Their business model doesn't include service, just selling the boxes.

Threats

1. The computer as appliance. Volume buying and selling of computers as products in boxes, supposedly not needing support, training, connectivity services, etc. As people think of the computer in those terms, they think they need our service orientation less.
2. The larger price-oriented store. When they have huge advertisements of low prices in the newspaper, our customers think we are not giving them good value.
3. Leveraging the insight the SWOT analysis can bring is time well invested.

Understand Your Competition

Something here about competition

To understand the strengths of your own business, you must understand your competition and your positioning. Who competes with you for your customers' time and money? Are they directly selling competitive products and services, substitutes, or possible substitutes? What are their strengths and weaknesses? How are they positioned in the market?

Your competitive analysis

A good competitive analysis varies according to what industry you're in and your specific marketing plan and situation. A comprehensive competitive analysis does have some common themes.

Begin by explaining the general nature of competition in your type of business, and how customers seem to choose one provider over another. What might make customers decide? Price or billing rates, reputation, or image and visibility? Are brand names important? How influential is word of mouth in providing long-term satisfied customers?

For example, competition in the restaurant business might depend on reputation and trends in one part of the market and on location and parking in another. For the Internet and Internet service providers, busy signals for dial-up customers might be important. A purchase decision for an automobile may be based on style, or speed, or reputation for reliability.

For many professional service practices, the nature of competition depends on word of mouth because advertising is not completely accepted and therefore not as influential. Is there price competition between accountants, doctors, and lawyers?

Competition (continued)

How do people choose travel agencies or florists for weddings? Why does someone hire one landscape architect over another? Why would a customer choose Starbucks, a national brand, over the local coffee house? Why select a Dell computer instead of one from H-P or Gateway? What factors make the most difference for your business? Why? This type of information is invaluable in understanding the nature of competition.

Compare your product or service in the light of those factors of competition. How do you stack up against the others? For example:

- As a travel agent, your agency might offer better airline ticketing than others, or perhaps it is located next to a major university and caters to student traffic. Other travel agents might offer better service, better selection, or better connections.
- The computer you sell is faster and better, or perhaps comes in fruity colors. Other computers offer better price or service.
- Your graphic design business might be mid-range in price, but well known for proficiency in creative technical skills.
- Your automobile is safer, or faster, or more economical.

- Your management consulting business is a one-person home office business, but enjoys excellent relationships with major personal computer manufacturers who call on you for work in a vertical market in which you specialize.

In other words, you should know how you are positioned in the market. Why do people buy your product or services instead of the others offered in the same general categories? What benefits do you offer at what price, to whom, and how does your mix compare to others? Think about specific kinds of benefits, features, and market groups, comparing where you think you can show the difference.

Describe each of your major competitors in terms of those same factors. This may include their size, the market share they command, their comparative product quality, their growth, available capital and resources, image, marketing strategy, target markets, or whatever else you consider important.

Make sure you specifically describe the strengths and weaknesses of each competitor, and compare them to your own. Consider their service, pricing, reputation, management, financial position, brand awareness, business development, technology, or other factors that you feel are important. In what segments of the market do they operate? What seems to be their strategy? How much do they impact your business, and what threats and opportunities do they represent?

Competition (continued)

You can find an amazing wealth of market data on the Internet.

Finding information on competitors

You can find an amazing wealth of market data on the Internet. The hard part, of course, is sorting through it and knowing what to stress.

Your access to competitive information will vary, depending on where you are and who the competition is. Competitors that are publicly traded may have a significant amount of information available, as regular financial reporting is a requirement of every serious stock market in the world. Wherever your target is listed for public trading, it has to report data.

Competitive information may be limited in situations where your competitors are privately held. If possible, you may want to take on the task of playing the role of a potential customer and gain information from that perspective.

Industry associations, industry publications, media coverage, information from the financial community, and their own marketing materials and websites may be good resources to identify these factors and “rate” the performance and position of each competitor.